

## **A LEVEL**

*Examiners' report*

# ***BUSINESS***

**H431**

For first teaching in 2015

## **H431/02 Summer 2019 series**

Version 1

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## Introduction


Our examiners' reports are produced to offer constructive feedback on candidates' performance in the examinations. They provide useful guidance for future candidates. The reports will include a general commentary on candidates' performance, identify technical aspects examined in the questions and highlight good performance and where performance could be improved. The reports will also explain aspects which caused difficulty and why the difficulties arose, whether through a lack of knowledge, poor examination technique, or any other identifiable and explainable reason.

Where overall performance on a question/question part was considered good, with no particular areas to highlight, these questions have not been included in the report. A full copy of the question paper can be downloaded from OCR.

## Paper 2 series overview

There has been an improvement in the overall standard of work seen by this session, compared to the previous two years. The examining team reported that candidates found the case study on 'Hotel Chocolat' to be well written and accessible, with ample material to allow good application in those questions which needed it. There was also plenty of scope for better candidates to show their skills by the way in which they sometimes took novel approaches to answering the questions about the cocoa market and product innovation (leading to some impressive answers to Question 11).

Two things continue to 'hold back' many candidates. First, not having an understanding of the full specification. Many candidates produced excellent answers to some questions but did not appear to know how to answer others. Second, not making use of the context available in the Resource Booklet. This was most often the issue in Questions 8, 12 and 13(b).

	<b>Misconception</b>	<p>Context is needed for all questions in Section B. In particular, candidates still seem to think that the two 4 mark questions (Questions 8 and 12) do not require context – they do. Centres should remind candidates to look at how the question is phrased, as this really does emphasise this point. For example, Question 8 refers to “the directors of Hotel Chocolat”.</p> <p>Many candidates produced good answers, making excellent use of the context, in the other four extended response questions at the same time as scoring only 1 mark (for a generic answer) in Questions 8 and 12.</p>
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It was noticeable how many candidates performed less well on questions about topics, such as gross profit, job production, management functions and market research. This may be caused by them focusing their revision on topics covered in the 'second year' of the course and spending less time on those covered earlier on. Centres need to make sure that candidates are aware that questions will come from all parts of the specification and there is no distinction between 'AS' and 'A Level' topics when the paper is being written.

There was no evidence of candidates running out of time. The general standard of handwriting remains satisfactory, although some candidates could help themselves (and the examiners) by making better, or any, use of paragraphs.

## Section A overview

The generic questions in this section are designed, along with the multiple choice questions in H431/1, to make sure that as much of the specification is covered as possible. It is, therefore, pleasing to report that candidates coped well with the questions set this year, with only Questions 3 and 5c (the two numerate questions) causing significant difficulties.

Some candidates continue to waste time by writing at excessive length in this section. The space provided for each answer is ample for what needs to be written. Full sentences are unnecessary, and it was not unusual to find an answer which went on for another line, or more, even after all of the marks had been given by the examiner.

### Question 1

1 State **two** factors which may affect the choice of finance for a business.

1 .....

2 ..... [2]

This was well answered with size, legal structure and interest rates the most popular answers.

### Question 2

2 What is meant by 'opportunity cost'.

.....

.....

.....

..... [2]

Compared to previous occasions when this content has been asked about, it was well answered this time.

About one in five candidates did not appear to know what this basic term meant, generally thinking it was something to do with 'opportunities' faced in the future.

### Question 3

- 3 A business manufactures teddy bears. Its turnover for the last financial year was £280 000 with cost of sales of £115 000 and other expenses of £55 000.

Calculate the gross profit for the business.

.....  
.....  
.....  
.....

Answer ..... [2]

This was the least well answered question in Section A, with more than half of candidates getting no marks, usually because they deducted the expenses, so giving an answer for net profit. Candidates must read and select the necessary information, rather than assuming all of it needs to be used.

### Question 4

- 4 'Intensity of rivalry within the industry' is one of the forces identified by Porter in his Five Forces model of strategic choice.

List **two** of the other forces identified by Porter in his Five Forces model.

1 .....  
2 .....

[2]

Well answered, with most candidates getting both marks.

### Question 5 (a), (b) and (c)

5 The table below sets out a selection of workforce performance data for a business, using index numbers.

	2016	2017	2018
<b>Lateness</b>	112	100	101
<b>Absenteeism</b>	115	100	97
<b>Productivity</b>	79	100	121

(a) Identify the base year for all of the data.

..... [1]

(b) Identify the year in which productivity rose by 21%.

..... [1]

(c) Calculate the percentage change in absenteeism between 2016 and 2018.

.....  
 .....

Answer ..... [2]

Although index numbers have been used to present data in the past, this is the first time that a question has been based around this quantitative skill, listed in annex 1 of the specification.

Most candidates got parts (a) & (b) correct, although more struggled with part (a) as they assumed the first year, 2016, was the base year.

It was part (c) that caused the most problems. This was more often due to candidates' difficulty with calculating percentages rather than anything to do with index numbers. In addition, some candidates only gained 1 out of 2 marks as they did not include the negative sign, and some did not use accurate rounding.

### Question 6

6 Explain **two** disadvantages for a business of using job production.

1 .....

.....

.....

.....

.....

2 .....

.....

.....

.....

[4]

Although most candidates scored 3 or 4 marks, it was noticeable how many were less confident writing about job production than in previous sessions. There was some confusion about what job production involves, especially in terms of how it affects motivation, costs and stock levels.

As was also the case with Q7, some candidates produced two answers for each question which were too similar to enable both to be rewarded.

### Question 7

7 Explain **two** functions of management.

1 .....

.....

.....

.....

.....

2 .....

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.....

.....

[4]

This was attempted slightly better than Question 6. There were a significant minority of candidates who did not appear to know about the functions of management and instead relied on considering the different functional areas of a business. In some cases, examiners were able to give up to 2 marks for these answers, as the answer often implied one of the management functions, such as controlling or planning.



## Section B overview

As already mentioned, the main discriminator in this section continues to be the use of context from the Resource Booklet. This was especially true for the two 4 mark 'analyse' questions, where context was often absent. This meant that Questions 8 and 12 were two of the three least well answered questions (along with Question 13b). On the other hand, both Questions 9 and 11 were very well answered.

### Question 8

8 Analyse **one** way the directors of Hotel Chocolat would benefit from using budgets.

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..... [4]

Virtually all candidates were able to identify one way in which budgets may be used. However, fewer than half scored more than one mark, as they did not make any use of the context.

Consider exemplar 1 which shows very good understanding and analysis of budgets (mainly with regards to using budgets to carry out variance analysis) but without any reference to Hotel Chocolate or the circumstances it faces.

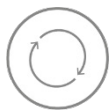
Compare this with exemplar 2 which, although demonstrated less knowledge of the topic, does write about Hotel Chocolat by making reference to the opening of the Peterborough shop. This allows the rest of the marks available to be given.

#### Exemplar 1

Hotel Chocolat could use a budget as a comparison for the business. They could compare the figures from the budget to the actual costs they spent. The directors would be able to see the efficiency of the business. They will be able to see where they have overspent so where they need to cut costs or where they have come in under budget. Therefore they could use this money elsewhere to improve another part of the business.

Exemplar 2

Budgets may help the directors to set an agreed amount of cash to spend on an investment, such as the new Peterborough store, and not over-spend. This means their costs will be relatively low, leading to them breaking even faster. This means the new shop will be profitable earlier.

	<p><b>AfL</b></p>	<p>As clearly stated in the mark scheme, a non-contextual answer can only be given the AO1 mark(s). This means a maximum mark of 1 on the 4 mark questions and a maximum mark of 2 on the 9 mark and 15 mark questions.</p>
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Question 9

- 9 Evaluate the impact on the directors of Hotel Chocolat of the decision to float the business on the London stock market and so become a public limited company. [9]

This question, considering it was the first time that the impact of flotation has been examined, was very well answered by many candidates. There was good use of the context and a majority of candidates made an attempt to conclude the overall impact, often by referring to the fact that the original owners had retained two-thirds of the shares. The best answers weighed up the benefits of being able to access more finance with the increased regulatory control and greater degree of information available to competitors.

Exemplar 3 shows this sort of concluding evaluation very well. This came at the end of an answer which considered the ability to raise more funds for expansion of more shops and the consequences of increased regulatory requirements.

## Exemplar 3

To evaluate, Hotel Chocolat's decision to float on the stock exchange is a good idea. This will enable them to rapidly increase capital to £50 million. This will help them expand to their new shop in ~~the~~ Peterborough (and others) which will inevitably lead to an increase in market share which at the moment is relatively small. It will also provide greater transparency to consumers. However, becoming public leaves them vulnerable to being taken over by competitors. This has already happened to Thorntons and could happen again to Hotel Chocolat. They must also publish their accounts which may impact consumer confidence if they were to experience a rough time of trading, and cause the share value to fall.

## Question 10

10\* Extract B suggests that Hotel Chocolat sees itself as an innovative company.

Evaluate whether the advantages of product innovation for Hotel Chocolat outweigh the disadvantages. [15]

This was by far the better answered of the two 15 mark questions, with most candidates scoring between 7 and 10 marks.

There were some good examples of product innovation and positive impacts (such as premium prices and competitive advantage). Lower ability answers either did not consider negative impacts (such as costs) or did not compare them against the positive impacts.

A common problem with many 'good' answers was that they did not come to a final decision or judgement about whether the advantages actually outweighed the disadvantages. Candidates commonly wrote a conclusion which, without adding anything but repetition of earlier points, states something such as, "...the advantages outweigh the disadvantages" or "...so product innovation is a good thing." Exemplar 4 shows this very well. Although it may 'sound good' it adds nothing to the final judgement.

Compare this with exemplar 5 which adds to what had previously been written and clearly considers both sides of the argument, using the available context.

## Exemplar 4

to conclude, I believe the advantages do outweigh the disadvantages and having product innovation is vital to Hotel Chocolates survival as it has made them what they are and created a strong loyal customer base with a great brand reputation.

## Exemplar 5

To evaluate, the product innovations that Hotel Chocolat offer, provide a unique selling point that makes it stand out in a highly competitive market. This outweighs the disadvantages as if Hotel Chocolat did not provide this level of quality and product range it is likely that they, like Thorntons, would lose sales and fall into a decline. However, this high level of cocoa found in their products mean that costs are much higher. The price of cocoa, whilst falling, is still far more expensive than sugar, this could lead to smaller profit margins and allow competitors to increase their sales as Hotel Chocolat's prices are much higher.

**Key point call out**

Candidates who have their sights set on the higher grades need to develop their 'stronger' evaluation skills, rather than just relying on the 'advantages versus disadvantages' approach. These skills were sometimes seen in Questions 9 and 10 but were rarely seen in Questions 11 and 13(b).

### Question 11

11 Evaluate the extent to which Hotel Chocolat may be affected by the changing world price of cocoa. [9]

Performance on this question was similar to Question 9. Good use was made of the information provided in the Resource Booklet about the business being vertically integrated. This led to some excellent conclusions that Hotel Chocolat would see a limited effect and, in some cases, may lose out as the world price of cocoa falls. Better answers also considered how significant any change in costs was for a firm selling in a premium market. Some novel answers also suggested that the business could make use of its plantation to sell cocoa to competitors.

One criticism of answers for both this and Question 9 was that candidates often tried to consider too many factors. For a 9 mark question, two 'issues' is enough, especially if they provide the necessary comparison or conflict to allow evaluation to be based on them.

### Question 12

12 Analyse **one** primary market research technique that Hotel Chocolat may have used when deciding to locate its Peterborough shop in the Queensgate shopping centre.

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..... [4]

Responses to this question were affected even more than Q8 in terms of a lack of context. Only a third of candidates scored 2 or more marks. An added problem was that some candidates gave a sampling method rather than a market research method.

### Question 13 (a)

13 (a) Weekly consumer income in the UK increased from £465 in July 2016 to £474 in July 2017.

Using data from **Extract A**, calculate the income elasticity of demand for Hotel Chocolat's products over this period.

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.....

.....

Answer ..... [4]

The majority of candidates knew the formula for income elasticity of demand, although some inverted it. Some candidates took the wrong figure from Extract A (using 18% which was the change in online revenues only, instead of the correct figure of 12%). As with Question 5(c), there were some issues with rounding, particularly in the middle of a question. For example, some candidates correctly calculated the change in income to be 1.94% but then incorrectly rounded this to 2% which led to a larger than acceptable degree of inaccuracy in their final answer.

### Question 13 (b)

(b)\* Hotel Chocolat is a premium chocolate brand. (Lines 3–5)

Recommend an appropriate promotional mix as part of Hotel Chocolat's future marketing strategy. Justify your answer. [15]

This question was the least well done on the whole paper and time issues were clearly not the problem; most scoring 6 marks or less with many scoring no marks.

Many candidates scored no marks because they discussed why a business needed to promote, without giving examples of promotional methods. Others discussed the marketing mix instead of just focusing on the promotional mix. There was also a lot of unnecessary theory and use of promotional models. Most candidates also ignored Extract E which provided advice about how to produce a generic promotional mix. Candidates could have used this to focus and structure their answer relevant for Hotel Chocolat. Material produced in the Resource Booklet is always there for a reason; there is no 'filling'. Candidates should always be looking to make use of each extract at least once in Section B answers.

Where candidates did focus on the actual question set there were some excellent answers. The best understood that there are a range of promotional techniques and it does not all have to revolve around advertising online or on the television. Exemplar 6 is one of a minority of answers which managed to answer the question set and score more than 12 marks.



## Exemplar 6

Promotion is an element of the marketing mix and comes in two types: below the line and above the line. Above the line Promotion is where the business has no direct contact with the customer. For Hotel Chocolat above the line Promotion may include Sponsorship and Social media. Since they sell luxury chocolate, their target audience may be people with higher incomes, who can afford luxury chocolate. Therefore, using social media, Hotel Chocolat can target their luxury brand by releasing updates on new products and shop openings. However, since social media is used by various types of people, Hotel Chocolat may not target the correct audience for luxury chocolate, as not everyone would be able to afford it. Realistically, the extent to which social media is a useful promotional tool is limited because they may lose the luxury chocolate reputation by appearing to target millions of potential customers online.

Below the line Promotion is where the business has direct contact with the customer. For Hotel Chocolat, suitable below the line methods may include packaging and branding. By placing the Hotel Chocolat brand name on the chocolate they sell and on the bags they go in, for customers to carry around, for example while they are shopping. The name Hotel Chocolat, shows luxury in the UK chocolate market and by placing the brand name on packaging, they may be able to encourage other potential customers to buy luxury chocolate from Hotel Chocolat over competitors such as Thorntons. However, on its own using branding may not be strong enough to promote the luxury chocolate they sell. Using this in conjunction with other below the line methods such as discounts on their first purchase of chocolate or by signing up to emails, then they might be able to encourage customers to try the unique chocolate they sell. Realistically, below the line methods



may appeal to the luxury chocolate market as only a select level of customers will be able to afford it. Therefore by using branding on packaging it may make potential customers want to carry around hotel chocolate, a luxury brand, products as well.

Therefore, overall, I believe that above the line methods may reach too ~~many~~ many customers, to stay as a premium chocolate brand, as customers may only shop there if the prices are dropped. An appropriate promotional mix would involve branding and packaging as a below the line method, as well as relying on word of mouth promotion. In terms of above the line, sponsorship for luxury events, maybe such as horse races, should appeal to their target audience for ~~an~~ quality chocolate.

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